

***United States Court of Appeals  
for the Second Circuit***



**ADDENDUM**





UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

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INTERNATIONAL BUSINESS MACHINES  
CORPORATION,

Petitioner,

-against-

HON. DAVID N. EDELSTEIN, CHIEF JUDGE,  
UNITED STATES DISTRICT COURT FOR THE  
SOUTHERN DISTRICT OF NEW YORK, and  
UNITED STATES OF AMERICA,

Respondents.

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9  
No. 76-3035

PETITION FOR  
EXTRAORDINARY WRIT  
PURSUANT TO  
28 U.S.C. § 1651  
AND  
FED. R. APP. P. 21

ADDENDUM TO PETITIONER'S INDEX TO EXHIBITS

*Pre-Trial Ruling No. 19.*

swer that Interrogatory as to all models that bore a legend either listing the patents used or representing that such a list would be furnished upon request. Citing other language in the Ruling that declined, partly because of undue burden, to order Xerox to formulate claims as to patent coverage for machines that did not bear such a legend, Xerox contends the Court must have intended to require an answer to Interrogatory No. 62(a) only to the extent that opinions as to coverage are already in existence. Xerox is correct in suggesting that the Court did not expect that response to Interrogatory No. 62(a), to the extent allowed, would entail much of a burden. The Court assumed that when Xerox represented to the public that a list of patents would be furnished upon request, there must exist some documents that would have enabled Xerox to respond to such an inquiry with reasonable promptness. It is hard to believe that Xerox would have answered a request by saying, "We have documents that list some patents being used, but it will be an enormous burden for our patent department to complete the analysis necessary to list all the patents being used."

Nevertheless Xerox asserts that in fact the available documents do not list all of the patents used on machines that bore the legend promising to furnish such information. No claim is made that such documents formerly existed but have since been destroyed. Nor has Xerox contended that it lacked the ability to furnish to consumers the list of patents it represented it would supply. It may well be that no single document contains a list of patents used in each machine. However, unless the Xerox representation to the public was misleading, Xerox must have some material in its files from which the requested lists can be assembled.

Xerox's own internal documents submitted to the Court and ordered produced under Pre-Trial Ruling No. 17 re-



*Pre-Trial Ruling No. 19.*

veal that this is not the first time Xerox has sought to place obstacles in the way of those who simply ask it to honor the public representation it has made. In January, 1967, a request was made for patents used in three machines. Xerox responded with a list of all patents owned by Xerox Corporation. Undaunted by the overkill, the inquiry was renewed, with the request limited to patents used in a single machine. That letter went unanswered. A renewed request in April evoked a reply in May, which stated: "We did send to you a list of certain of our patents, and I am afraid I cannot tell what additional specific information you need." In June the persevering requester reminded Xerox that his inquiry concerned only the patents covering the Model 914, charitably suggesting that the complete list of all patents had been sent inadvertently. That letter was circulated internally for guidance with the notation "We *do* have a list of 914 patents which we *don't* ordinarily send out." (Emphasis in original): Ultimately wiser heads prevailed, and the January request was complied with on August 1. Two years later a request for patents relating to another machine evoked a different tactic. Though an internal document had identified 14 unexpired patents that "probably" related to the machine, the requester was sent six patents with this explanation: "We are enclosing some typical patents which outline our processes . . . ."

The Court does not expect that Xerox patent personnel will now begin an analysis of every patent, and make discrete judgments as to whether or not they read on every machine. Much of the required listing is already reflected in the documents already ordered to be produced. As to many patents, it must be readily ascertainable that they do not apply to any machines. If bona fide doubt exists whether some patents are used in a particular machine, the interrogatory response can forego definitive answers

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*Pre-Trial Ruling No. 19.*

in favor of an indication of probable coverage. Abuse of this limited leeway will encounter sanctions.

Except to the extent modified in the prior paragraph, the motion to reconsider Pre-Trial Ruling No. 17 is denied. Documents ordered to be produced by that Ruling shall be given to SCM by March 15. Interrogatory responses, and *in camera* submissions required by that Ruling shall be filed by March 31.

Dated at New Haven, Connecticut, this 9 day of March, 1976.

JON O. NEWMAN



## Pre-Trial Ruling No. 21.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

CIVIL No. 15,807

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SCM CORPORATION

v.

XEROX CORPORATION

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Xerox has sought an amendment to Pre-Trial Rulings Nos. 17 and 19 to include the determinations necessary to provide for interlocutory appeal pursuant to 28 U.S.C. § 1292(b) of two rulings contained therein. The first requires Xerox to produce documents containing the opinions of attorneys in its patent department as to the scope of various patents. The second requires Xerox officials to answer deposition questions concerning negotiations between Xerox and the Rank Organisation.

Interlocutory appeals of discovery rulings have been rejected by the Second and other Circuits, even when certification was made under § 1292(b). See *Atlantic City Electrical Co. v. General Electric Co.*, 337 F.2d 844 (2d Cir. 1964); *United States v. Woodbury*, 263 F.2d 784 (9th Cir. 1959). See also *McSparran v. Bethlehem-Cuba Iron Mines Co.*, 26 F.R.D. 619 (E.D. Pa. 1960) (certification denied). Review has been granted where the availability of deposition testimony was thought pertinent to a motion to dismiss, *Garner v. Wolfenbarger*, 430 F.2d 1093 (5th Cir. 1970), and where a district judge announced, without precedent, the doctrine that the attorney-client privilege is un-

*Pre-Trial Ruling No. 21.*

available to corporations. *Radiant Burners, Inc. v. American Gas Association*, 320 F.2d 314 (7th Cir. 1963).

I do not believe the two rulings challenged by Xerox are appropriate for certification for interlocutory review. Neither ruling concerns a matter such that "an immediate appeal from the order may materially advance the ultimate termination of the litigation" as required by § 1292(b). Reversal of either ruling would not eliminate a party, end litigation of a particular claim, nor otherwise spare the litigants any significant aspect of the trial. Despite Xerox's attempt to fragment the first ruling into four issues,<sup>1</sup> it poses the single question of whether an attorney's opinion is privileged when it demonstrably does not reveal confidential communications from the client. While Pre-Trial Rulings Nos. 17 and 19 note some authority for the view that all attorney advice is privileged regardless of whether it reveals client confidences, such views have not been adopted in the Second Circuit, which appears to adhere to the narrower formulation of Judge Wyzanski's in *United States v. United Shoe Mach. Corp.*, 89 F. Supp. 357 (D. Mass. 1950), see *Colton v. United States*, 306 F.2d 633 (2d Cir. 1962). Differing views outside the circuit have been thought not to satisfy the test of § 1292(b). *Berger v. United States*, 170 F. Supp. 795 (S.D.N.Y. 1959).

The second challenged ruling involves no controlling issue of law, but solely a question of whether adequate facts have been presented to satisfy a legal standard not disputed by the parties. Legal advice, if privileged, does not lose protection from disclosure when communicated to those with a sufficient common interest in

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<sup>1</sup> Xerox misapprehends Pre-Trial Ruling No. 19 concerning attorney's advice not communicated to the client. So long as disclosure of that advice would reveal confidential communications from client, it is privileged, even if contained in a memo to the file. See Pre-Trial Ruling No. 19 at 7-8.



*Pre-Trial Ruling No. 21.*

the advice. Xerox has failed to demonstrate that this standard was met in the context of the Xerox-Rank negotiations. When the issue was first submitted for decision, no facts other than the existence of the joint venture supported this claim. After Pre-Trial Ruling No. 17, Xerox submitted an affidavit of Rank counsel, which was found in Pre-Trial Ruling No. 19 to be an insufficient basis for concluding that Rank was jointly interested in whatever legal advice Xerox communicated during the negotiations to alter the Xerox-Rank joint venture. Now Xerox alleges that an adequate showing was "implicit" in a paragraph of the attorney's affidavit. Xerox also discounts the significance of McColough's statement that "legal considerations affecting Xerox" were discussed by pointing out that no one asked McColough at his deposition whether Rank was affected. It is not for this Court to divine what is implicit in an attorney's affidavit, nor to assume what a deponent would say if asked a particular question. Xerox has had ample opportunity to submit affidavits of the Rank attorney, McColough, or anyone else to demonstrate explicitly that the joint interest test was met in the context of the Xerox-Rank negotiations. There has simply been a failure of proof.

This litigation is in its third year, and a time-table for trial preparation and trial will shortly be issued. Interlocutory review at this time would cause a substantial delay which I do not believe is warranted. There is, however, one claim that might justify interlocutory review. This concerns the deletion of a concluding paragraph from the Court of Appeals' opinion in *United States v. Silverman*, 430 F.2d 106 (2d Cir. 1970), discussed in Pre-Trial Ruling No. 19. While I do not believe § 1292(b) certification is warranted on my reading of *Silverman* and the deletion, it is of course up to the Court of Appeals to say with finality whether that deletion has greater significance

*Pre-Trial Ruling No. 21.*

than I have given it. Xerox is certainly entitled to a brief stay to afford it an opportunity to petition the Court of Appeals for a writ of mandamus, though § 1292(b) certification is denied. See *Harper & Row Publishers, Inc. v. Decker*, 423 F.2d 487 (7th Cir. 1970).

Accordingly, the motion to amend Pre-Trial Rulings Nos. 17 and 19 to include certification pursuant to 28 U.S.C. § 1292(b) is denied, those Rulings, insofar as they concern the matters challenged by Xerox in its application for amendment, are stayed until March 26 to permit Xerox to seek a petition for writ of mandamus and a further stay from the Court of Appeals, and, in the event mandamus is denied, the deadlines in Pre-Trial Ruling No. 19, concerning the matters here challenged, are extended by the interval from the date of that Ruling until decision by the Court of Appeals on a petition for writ of mandamus.

Dated at New Haven, Connecticut, this 22nd day of March, 1976.

JON O. NEWMAN  
United States District Judge



Pre-Trial Ruling No. 22.  
UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

Civil No. 15,807

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SCM CORPORATION

v.

XEROX CORPORATION

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In order to resolve claims to attorney-client privilege raised during depositions of certain Xerox executives, the Court directed those executives to submit affidavits to the Court for its *in camera* inspection. Pre-Trial Ruling No. 17 at 5, 14, 17. Having examined the affidavits of C. Peter McColough, Sol M. Linowitz, and John H. Dessauer, the Court sustains the claims of McColough and Linowitz, but rules that Dessauer should answer SCM's question whether he ever recommended that Xerox act to prevent another company from becoming a competitor.

Linowitz's affidavit concerns conversations he had with Battelle executives. Linowitz Deposition, Tr. 241 (Oct. 10, 1975). It sufficiently demonstrates the mutual interests of Xerox and Battelle in the topics of discussion so that the conversations may remain privileged as confidential communications concerning legal aspects of matters of joint concern in the affairs of the closely cooperating enterprises.

McColough's affidavit outlines the considerations pertaining to licensing decisions about which SCM endeavored to question him, McColough Deposition, Tr. 1494, 1496-97,

UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

Nos. 1060, 1061—September Term, 1975.

(Argued April 13, 1976      Decided April 13, 1976.)

Docket Nos. 76-3017, 76-7131

XEROX CORPORATION,

*Defendant-Appellant,*

—against—

SCM CORPORATION,

*Plaintiff-Appellee.*

XEROX CORPORATION,

*Petitioner,*

—against—

HON. JOY O. NEWMAN, Judge of the United States  
District Court for the District of Connecticut, and  
SCM CORPORATION,

*Respondents.*

Before:

CLARK, *Associate Justice.\**

MANSFIELD and MULLIGAN, *Circuit Judges.*

Attempted appeal from pretrial discovery orders issued  
by the United States District Court for the District of

\* Supreme Court of the United States, retired, sitting by designation.



Connecticut, Jon O. Newman, *Judge*, and petition for a writ of mandamus staying the operation and effect of the orders.

Appeal dismissed for lack of jurisdiction. Petition for writ of mandamus denied.

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STANLEY D. ROBINSON, Esq., New York, N.Y.  
(Milton Handler, Esq., Kaye, Scholer, Fierman, Hays & Handler, New York, N.Y., Kenyon & Kenyon Reilly Carr & Chapin, New York, N.Y., Cummings & Lockwood, Stamford, Conn., John R. Murphy, Esq., Stamford, Conn., of counsel), *for Defendant-Appellant*.

STEPHEN RACKOW KAYE, Esq., New York, N.Y.  
(Ira B. Brudberg, Esq., David L. Belt, Esq., W. Thomas Fagan, Esq., Richard M. Gelb, Esq., Proskauer Rose Goetz & Mendelsohn, New York, N.Y., Widett, Widett, Slater & Goldman, P.C., Boston, Mass., Jacobs, Jacobs & Grudberg, P.C., New Haven, Conn., of counsel), *for Plaintiff-Appellee*.

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PER CURIAM:

In this litigation between two giants of the office copying industry, which was begun in 1973 when SCM Corporation (SCM) brought an action against Xerox Corporation (Xerox) in the District of Connecticut seeking damages for alleged antitrust violations, and declaratory and injunctive relief with respect to certain patent and license agreements, Xerox seeks to appeal from two pretrial discovery orders issued by Judge Jon O. Newman with respect to documents and information claimed to be protected from

disclosure by the attorney-client privilege. In the alternative, Xerox petitions pursuant to 28 U.S.C. §1631 and Rule 21, F.R.A.P., for a writ of mandamus staying the operation and effect of the orders.

In recent years we have repeatedly sought to make clear that in the absence of a certification pursuant to 28 U.S.C. §1292(b) or of a showing of "persistent disregard of the Rules of Civil Procedure," *Will v. United States*, 389 U.S. 90, 96 (1967), or of "a manifest abuse of discretion," *Baker v. United States Steel Corp.*, 492 F.2d 1074, 1077 (2d Cir. 1974), on the part of the district court, no jurisdictional basis exists for interlocutory review of pretrial discovery orders of the type here presented. See 28 U.S.C. §1291; *International Business Machines Corp. v. United States*, 480 F.2d 293 (2d Cir. 1973) (en banc), cert. denied, 416 U.S. 979 (1974); *American Express Warehousing, Ltd. v. Transamerica Insurance Co.*, 380 F.2d 277 (2d Cir. 1967); *Shattuck (IBM) v. Hoegl (Xerox)*, 523 F.2d 509 (2d Cir. 1975).

No such showing is made here and Judge Newman understandably refused to certify his rulings for appeal pursuant to 28 U.S.C. §1292(b). This case does not present legal questions of first impression or of "extraordinary significance," 380 F.2d at 282. Furthermore, the record indicates that the district judge, far from being guilty of usurpation of power, invoked and painstakingly applied settled principles governing the attorney-client privilege to a complicated factual picture. Xerox's attack upon the viability of *Colton v. United States*, 306 F.2d 633 (2d Cir. 1962), cert. denied, 371 U.S. 951 (1963), which it bases on our later decision in *United States v. Silverman*, 430 F.2d 106 (2d Cir. 1970), modified on rehearing, 439 F.2d 1198 (1970), cert. denied, 402 U.S. 953 (1971), hardly warrants interlocutory review. It is further settled that the exception created by *Cohen v. Beneficial Industrial Loan Co.*, 337



U.S. 541 (1949), to the finality requirement cannot be employed to obtain interlocutory review of discovery orders. See *American Express Warehousing, supra*, 380 F.2d at 280; *Shattuck, supra*, 523 F.2d at 516. In view of the applicability of such well-established jurisdictional principles, further explication is unnecessary. "Occidit miseros crambe repetitia magistros," Juvenal, Satires. Sat. vii, l. 154 (Gifford, tr.).

The attempted appeal is dismissed for lack of appellate jurisdiction. The petition for a writ of mandamus is denied.

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480-4-19-75

USCA-4137

MELEN PRESS INC., 445 GREENWICH ST., NEW YORK, N. Y. 10013, (212) 966-4177

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UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

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INTERNATIONAL BUSINESS MACHINES  
CORPORATION,

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-against-

HON. DAVID N. EDELSTEIN, CHIEF JUDGE,  
UNITED STATES DISTRICT COURT FOR THE  
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INTERNATIONAL BUSINESS MACHINES  
CORPORATION,

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HON. DAVID N. EDELSTEIN, CHIEF JUDGE,  
UNITED STATES DISTRICT COURT FOR THE  
SOUTHERN DISTRICT OF NEW YORK, and  
UNITED STATES OF AMERICA,

Respondents.

Exhibit U--Trial transcript, July 19, 1976,

Exhibit V--Plaintiff's Exhibit No. 3487.



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2 at transcript 16290. We wish to preserve that objection.

3 THE COURT: Very well.

4 MR. WOGHIN: The final item is Plaintiff's  
5 Exhibit 3480 for identification. This document was  
6 provided to me by Mr. Barr. It is a more complete copy of  
7 what has been offered as Plaintiff's Exhibit 3430.

8 I would note for the record that the document  
9 continues to be excised on page 006 under the heading  
10 Roman VII, "Recap." The document is entitled, "Minutes of  
11 the Buck Hill Falls Business Practices Meeting, May 19-21,  
12 1969."

13 I would also note, your Honor, that under the  
14 list of attendees, the document indicates that copies of  
15 charts used in the presentation are attached. The charts  
16 are not attached, and Mr. Barr has indicated that he has  
17 undertaken to locate those charts, and will notify me when  
18 he can locate the charts.

19 For the time being, though, I would offer  
20 Plaintiff's Exhibit 3480 for identification as Plaintiff's  
21 Exhibit 3480 in evidence.

22 MR. MULLEN: Your Honor, we have no objection  
23 to the receipt in evidence of Plaintiff's Exhibit 3480. We  
24 are still looking for the charts, and what Mr. Woghin stated  
25 is correct about the search that we are making for them.



1  
2 Your Honor, I have in court today the copy of  
3 page 6 of the document which has the masked portion shown on  
4 the document pursuant to your Honor's prior instructions. I  
5 will have it handed up to you at this time.

6 (Document handed to the Court.)

7 (Plaintiff's Exhibit 1266-A withdrawn;  
8 Plaintiff's Exhibit 1266-B received in evidence.)

9 MR. WOGHIN: With the exception of the  
10 outstanding objections, your Honor, I believe that that  
11 clears up the matters still pending before the Court with  
12 respect to the bundling documents.

13 Counsel has indicated that there still remains  
14 the question of the ten documents produced by IBM to the  
15 West Coast plaintiffs. That matter still remains  
16 outstanding as well.

17 THE COURT: Well, I think I need some help. I  
18 am not sure that I understand Mr. Mullen's statement that he  
19 is handing up a portion of the document which was masked.

20 You did say that, didn't you?

21 MR. MULLEN: Yes, your Honor. What was handed  
22 up to you was the entire document. If you look, your Honor,  
23 on page 6, and if you have Plaintiff's Exhibit 3480 in front  
24 of you as it was offered by the plaintiff, you will see that  
25 the first paragraph of Plaintiff's Exhibit 3480 as offered

and as received starts with Roman numeral VII headed, "Recap," and then there is a paragraph under the word "Beitzel."

THE COURT: In other words, you are referring to the blank space which appears on Roman numeral VII under the title "Recap," and concludes with the date of May 23rd. Then there appears to be a blank space.

MR. MULLEN: Yes, sir.

THE COURT: That is what you have reference to, is that correct?

MR. MULLEN: Yes, sir, and on the copy that has just been handed up to your Honor, the blank space is not blank; it shows what was in the text of the document at the time the document was written. The first word in the paragraph that was handed up to your Honor just now is "Katzenbach."

THE COURT: What is your objection to turning that over or unmasking it?

MR. MULLEN: We claim that the document is protected by attorney-client privilege.

THE COURT: Overruled.

(Plaintiff's Exhibit 3480 for identification received in evidence.)



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MR. WOGHIN: Your Honor, if I may request through the Court a copy of the document which has been marked -- which has not been marked but which has been presented to your Honor with the unmasked portion. Counsel for IBM has indicated that they would not provide me with a copy of the unmasked portion of the document, and I would request through the Court that I may have access --

THE COURT: I'm sorry, let me hear what you are saying.

MR. WOGHIN: I have requested from counsel for IBM a copy of the unmasked document and have been advised that I should make through you a formal request for the document as counsel has indicated that they will not turn the document over to me directly.

THE COURT: Well, make your request.

MR. WOGHIN: And I would ask that I would be able to obtain a copy of the unmasked document which is the minutes of the Buck Hill Falls Business Practices Meeting, May 19-21, 1969.

MR. MULLEN: Your Honor, we oppose that application.

Plaintiff has a copy of all but the masked portion of the document. The masked portion of the document

1 concerns an issue which is currently pending in the  
2 Court of Appeals.  
3

4 THE COURT: What?

5 MR. MULLEN: The masked portion of the document  
6 concerns an application which is currently pending in  
7 the United States Court of Appeals for this Circuit.

8 We would ask your Honor not to order it produced  
9 to the plaintiff until such time as that issue is resolved.

10 THE COURT: Request is granted.

11 MR. MULLEN: I'm sorry, your Honor, the  
12 plaintiff's request?

13 THE COURT: Yes.

14 MR. MULLEN: Very well, your Honor.

15 May the record show that the document was handed  
16 to plaintiff's counsel pursuant to your Honor's direction.

17 MR. WOGHIN: Your Honor, I would ask that  
18 this document now be marked as Plaintiff's Exhibit which  
19 is the next sequence number.

\* \* \* 20 (Plaintiff's Exhibit 3487 marked for identi-  
21 fication.)

22 MR. WOGHIN: Your Honor, I would offer  
23 Plaintiff's Exhibit 3487 for identification as Plaintiff's  
24 Exhibit 3487 in evidence.

25 MR. MULLEN: Our objection, your Honor goes



1  
2 only to the part of the document for which we claim  
3 privilege.

4 THE COURT: Received.

\* \* \*  
5 (Plaintiff's Exhibit 3487 for identification  
6 received in evidence.)

7 MR. WOGHIN: Your Honor, that is the completion  
8 of that portion of the document problems with the exception  
9 of those that I have indicated still remain outstanding.

10 MR. CARLSON: May it please the Court, I would  
11 ask in a moment that Mr. Serota be excused from counsel  
12 table, as he has a role to play in the afternoon's  
13 presentation to the Court of Appeals.

14 But I wanted to not for your Honor before  
15 Mr. Woghin leaves the lead position at counsel table before  
16 your Honor, that there remain to my mind and to my knowledge  
17 of the case a goodly number of documents that relate to  
18 the Government's bundling case that are under claim of  
19 privilege, and that it is expected will come into the  
20 Government's possession at such time as the rulings are  
21 completed on the claims of privilege.

22 If there are none, it represents no problem,  
23 but I did wish to note for your Honor and for the record  
24 that there may be some necessity for presenting additional  
25 documents at the time when final rulings are made on claims

1 me ja 4

2 of privilege with respect to the bundling aspects of the  
3 Government's case.

4 Mr. Woghin reminds me of one more item of  
5 unfinished business, and that is customer surveys that  
6 Mr. Barr offered to produce during the context of the  
7 testimony of the witness Mr. Enfield. That remains out-  
8 standing, too, your Honor, and I do not know without having  
9 seen them whether the necessity will be that they be offered  
10 in evidence, but we will take care of that in due course.

11 The next part of the Government's case that we  
12 bring before your Honor has to do with the subject as  
13 typified by the Government of IBM's fighting machine.

14 I would note for the Court that the initial  
15 presentation to the Court will be by Mr. Charles E. Hamilton,  
16 III, who is in the courtroom and has been introduced to the  
17 Court, and also a part of that teams is Mr. Serota, who is  
18 in the courtroom and has been introduced to the Court, and  
19 the third member of that team is Douglas Ross, who is in  
20 the courtroom.

21 If Mr. Ross will stand. Mr. Ross is a member of  
22 the Bar of the State of Ohio. He is a member of the  
23 Government's team assigned to this case and has been for  
24 some time, but had not been introduced to the Court and  
25 I would move to the Court his admission for the purposes



of this case, your Honor.

THE COURT: Granted.

MR. CARLSON: If your Honor will give us just a moment to change places at counsel table, Mr. Hamilton will take the podium and give your Honor the scenario of what is to follow.

Is that satisfactory?

THE COURT: Yes.

MR. CARLSON: Thank you, your Honor.

THE COURT: Isn't there a statutory provision that all Government counsel are authorized for purposes of any motion or any case involving the Government to make any presentation in any federal court and, indeed, perhaps the statutory language is even more comprehensive? Am I in error about that?

MR. CARLSON: You are not in error. There is such a provision, and it provides in substance that the attorneys that appear before your Honor that are members of the Government's team in the Department of Justice are representatives of the Attorney General, but I thought as a courtesy to the Court to indicate on the record the persons who will appear before the Court that it was appropriate that the Court be apprised of their wish to be admitted.

1 mbam4-1

2 MR. MULLEN: Your Honor, to save time, may I  
3 make an application at this point in time that the portion  
4 of Plaintiff's Exhibit 3487 for which we claim privilege  
5 and which your Honor has received in evidence be sealed  
6 pending determination of the pending petition for  
7 writ of mandamus in the Second Circuit.

8 THE COURT: Denied, and I think it's completely  
9 inappropriate to rise to make a continuing objection or  
10 an objection which is in a different form to the one  
11 already made. This objection adds nothing. Your application  
12 doesn't add anything. I have made my ruling. There is no  
13 stay outstanding. There is no stay pending.

14 (Continued on next page.)  
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# MINUTES OF THE BUCK HILL FALLS BUSINESS PRACTICES MEETING

May 19 - 21, 1969

Attendees:	Mr. T. J. Watson, Jr.	Mr. G. B. Beitzel
	Mr. T. V. Learson	Mr. H. G. Figueroa
	Mr. R. H. Bullen	Mr. J. J. Forese
	Mr. F. T. Cary	Mr. D. T. Kearns
	Mr. R. W. Hubner	Mr. J. P. McDermott
	Mr. W. C. Hume	
	Mr. G. E. Jones	
	Mr. J. G. Maisonrouge	
	Mr. N. deB. Katzenbach	
	Mr. B. Marshall	
	Mr. D. R. McKay	
	Mr. J. R. Opel	
	Mr. E. R. Picre	

( Copies of charts used for the presentation are attached )

May 19, 1969

Bullen outlined the program and reviewed the matters that would be covered with MRC after the Buck Hill Falls Conference. He then stated that the internal billing rate matter had not been settled, but that Opel and Rizzo had agreed that something other than 40% would be necessary.

## I. Education

Figueroa outlined the business plan for education. The matters of use of company aircraft for customer executive courses and sales of MOI by SRA were discussed. It was agreed to look into these further. The question of continuing SRI fee courses was discussed. It was agreed to ask Bob Howe to re-examine continuation of SRI fee courses.

McDermott outlined the market structure and forecasts for education. He stated that comparisons were difficult because there was very little competitive activity in the types of courses we intended to offer. The question of the viability of machine operation type courses was addressed. It was agreed it would be necessary to offer all of these during the transition, but that the list would be studied and go, no-go, decisions would be made. Acceptance of the general public for these course

*Exhibit V*

offerings was discussed. It was agreed that it would be necessary to do this, but a policy statement should be made specifying that it was not our intent to aggressively pursue this business, and that we would provide instructional materials to small businesses offering education courses.

It was generally projected that the education business would be eroded long term.

Forese presented the financial analysis. It was generally agreed that machine time would be provided at standard data center rates, the same as would be available to competitive schools. TVL pointed out that costs should bear some relation to our present FE offerings even though they were on an RPQ basis.

## II. SE Services

Figueroa outlined the business plan for systems engineering. There was discussion of SE morale and was agreed that this would be a problem and that necessity for time recording would be an administrative work load. It was agreed that best efforts contracting would be used at least initially. This is common practice in consulting firms, public accounting firms, etc. Figueroa stated there was real concern in the Task Force for the viability of this business, with the exception of the custom contracts approach which would be discussed later.

McDermott reviewed the market and prices in SE services area. He compared rates in the industry pointing out there was wide variance. He predicted that the net reaction of the industry in this area would be positive.

Forese reviewed the financial outlook stating that personnel utilization was the key to profitability in this business. He further pointed out that DP rates would be higher than FSD in the market in general. There was discussion of whether it was necessary to announce specific rates at the time the services were offered. It was concluded in the affirmative.

## III. Programming Systems

Figueroa outlined business plan for programming. He specified the program classifications stating that the place where they propose to draw the line represented about 50% of the total SDD and DPD development expense. There was discussion of the great difficulty of drawing



this line logically anywhere, and whether or not it was possible to do business this way. The question of allowing competitors access to our machine development plans before they were announced in order that they could begin program development was reviewed. It was agreed that this could not be done for proprietary reasons and because the machine designs constantly shifted prior to announcement. It was recognized that this was an exposure, and therefore the question of the feasibility of any unbundling of programs was discussed. The great confusion, lack of maturity, and lack of product protection in the programming area were reviewed. It was agreed that although no completely clean and logical solution could be generated under existing conditions, it would be necessary to unbundle as far as possible. The line as recommended by the Task Force was accepted as being the most logical and equitable division between fee and free, even though it was not completely clean.

Two methods of charge were proposed, one a monthly license charge and the other a single use charge license with periodic renewal. These were accepted after lengthy discussion. The possibility of getting out of the non-essential machine program business entirely was discussed. Opel pointed out that in most cases a program was not a viable commercial entity by itself. It was agreed that this would seriously inhibit the growth of the business and industry, and that we must continue in this area.

The approach of charging for use by location and by CPU was questioned as being unenforceable, particularly since the program protection method in the industry were very loose at the present time.

The meeting was adjourned without conclusion.

May 20, 1969

Meeting reconvened at 8:30 A. M.

Figueroa continued discussion of programming stating that the Task Force was leaning toward a single use charge, with a twelve times front end load due to heavy initial development expense and slow recovery. The question of a five year renewable license was discussed. It was agreed that the Task Force would look at a very small renewal charge. Monthly charge was to be used in cases where central library

service and continuing maintenance was provided. The enforceability of a charge per CPU was again discussed. It was agreed that this was unenforceable, and were we to price on this basis, we would be likely to lose money on programs. TJW, Jr. commented that the only really equitable way in this business was to stay bundled, perhaps by industry, and that perhaps we should approach it this way on the basis that the usage route was in conflict with both equity and practicability. Maisonneuve made the suggestion that a lesser price be charged for subsequent copies of the program. Cary suggested we charge by location. TJW, Jr. suggested charging by customer size. It was agreed to study these approaches further.

Bullen pointed out that we had a number of programs announced but not released and stated that these must be charged for as of July 1 because they were not physically in the public domain, with free licenses being given to pre-Beta customers.

McDermott reviewed the industry stating there were a great many little companies which are subject to normal business failure and they would be inclined to blame IBM should they fail. Hume suggested we create a software house assistance facility to minimize this problem.

TJW, Jr. suggested a policy statement that we do not really want to be in the Type II business and intend to phase out as the industry becomes capable of taking over.

Forese reviewed the financial outlook for this business pointing out that it was all fixed cost and therefore very quantity sensitive. Forese predicted a slow build up and stated it would take two to five years to really measure and understand this business, and that program protection would be a key factor. TVL stated that this being the case, the monthly charge approach was very high risk. There was general agreement with this, and it was concluded that we would have to feel our way carefully.

#### IV. Hardware Effects

McDermott then began discussion of the effects on our hardware business with plus and minus variances. He then reviewed the lease/purchase swing predicting that purchase level would increase. It was stated the outlook was very fuzzy beyond 1970 because of the many unknowns in these new business areas.



V. Implementation Plans

Dave Kearns began a presentation of implementation plans. He outlined the plan to have FSD supply systems engineering services to GEM for government customers, to keep rates consistent with present FSD practices. Figueroa reviewed a proposal that a custom contracts operation be established reporting to DP Headquarters using the FSC civil programs as a base. This was accepted.

Kearns then covered the sales plan stating their intent to offer bonuses during 1969 for service contracts to get the business going and to relieve salesmen from leasing company charge backs. In addition, a percentage of billing commission rate would be added.

There was a lengthy discussion about the transition plan. It was agreed there was no way to convert from the old world to the new in a completely logical fashion which satisfied all constituencies, and that the Task Force recommendation provided the best balanced approach.

Kearns outlined personnel effect stating the exposure to under-utilization of SEs as the service business eroded. He stated that he felt this was manageable. It was agreed that 1969 recruiting should not be cut back. Kearns then reviewed the announcement plan and field education plans for late June. Beitzel then stated his intent to have the whole plan tested by a team of field management the week of May 26. These were accepted.

May 21, 1969

VI Plan Effect

The meeting reconvened at 8:30 A. M.

Forese reviewed the impact of the total unbundling recommendation on the DP Group Plan. He recommended a price reduction of 3% effective October 1 for rental customers, and June 16 for purchase customers. There was lengthy discussion about the rationale for the two different dates, with various alternatives from July 1 to January 1, 1970 being explored. It was finally agreed that no particular approach satisfied all logical conditions, and the approach recommended by the Task Force best served the equity for all customers and was the only one practically manageable by the field.

The Task Force recommendation was accepted.

## VII Recap

Beitzel began a recap of all of the issues and recommendations. He stated that a final recommendation on program pricing was targeted for Friday evening, May 23.

[ Katzenbach then reviewed the legal risks involved stating that we were open to complaints on a number of counts, but he thought the recommended solutions were the best possible given the complexities and immaturity of the market place, and the mutually exclusive positions of many of our constituents. ]

Beitzel requested and received approval of the recommendations.

## VIII Legal Update

George Turner reviewed his plans to call on the Department of Justice on June 4. Tom Barr outlined the status of the various suits, stating that a new suit had just been filed by Programmatics, a subsidiary of ADR.

Fred Schaeffler reviewed the organization and tasks assigned to his business evaluation department stating that, depending on how the suits evolved, his present staff of 42 people could build to 147 by mid 1970. TJW, Jr. requested a total cost review periodically by the MRC.



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